

VII. FIVE-YEAR FORECAST

Preparation of the five-year revenue forecast is complicated by economic uncertainty and the State's expanding budget problems. In more stable times, the forecast can assist decision-making by providing a longer-term perspective on potential results of budget decisions. In the current economic climate, which has been impacted by unprecedented events such as September 11, a five-year projection is less reliable. Uncertain economic conditions are overshadowed by the magnitude of the State's problems and the likelihood they will impact local government and render the results of an economic forecast useless.

Historical Information, Major Assumptions and Forecast Methodology

The forecast is for Fiscal Years 2002-03 through 2006-07. In the past, staff has prepared two possible revenue scenarios—conservative and less conservative. However, the specter of the still unresolved State budget crisis looming over the new fiscal year and the uncertain economic climate undermines the usefulness of an alternate scenario. Thus, a single revenue forecast is presented.

After two fiscal years (1997-98 and 1998-99) of essentially flat revenue growth, total revenues increased 21.8 percent by the end of Fiscal Year 2000-01. This was driven primarily by growth in sales tax that allowed the City to expand services in high priority areas such as Fire, Police, Library and Youth Services. However, during those years of limited revenue growth, it was necessary to control expenditures to maintain a positive financial position. The unpredictability of sales tax makes long-term revenue projections exceedingly difficult.

As discussed during the budget process, most of the Fiscal Year 2001-02 General Operating Fund revenue sources, except Property Tax and Use of Money and Property, were below budget. The General Operating Fund has a \$5.3 million operating balance for Fiscal Year 2001-02. Some of these funds are recommended for one-time expenditures and supplementing of reserves. This is drastically different from the \$21.4 million operating balance of the prior fiscal year and reflects the current poor economic climate. Though many economists have declared the nation is in a slow recovery, the local economy, which is driven by the high-tech industry, remains in a slowdown. Many dot-com businesses have failed, other companies have laid off employees and continue to do so, and business-to-business sales are very slow. A secondary effect of these conditions is significantly reduced business travel, which impacts transient occupancy tax. As a result, the forecast assumes slow growth into the future.

Projections of the major revenue sources are based upon and affected by the variables discussed below:

- Sales tax revenue is subject to economic, technological and political challenges, and local business decisions. Currently, the most significant challenges are the severe decline in the market value of technology companies over the past few years, lay-offs, the decline in business-to-business sales and the decline in consumer confidence and spending. During the 2001-02 fiscal year, electronic businesses generated approximately 29.0 percent of total recurring sales tax revenue. Any changes in reporting or decline in the sales of those companies have a direct impact on the City's sales tax revenue and its ability to provide services.
- Sales tax revenue has dropped sharply (30.7 percent) in the 2001-02 fiscal year after two prior fiscal years of growth. It is projected to increase marginally in Fiscal Year 2002-03 as staff and some economists believe this summer will be the low point for the region and will be followed by a slow recovery. Forecasting the multivariate factors that determine future levels of sales tax revenue is complex and largely conjecture. It is likely the future will not be a simple projection of historical trends. The importance of sales tax revenue to City finances and the difficulty of projecting future revenues argues for caution in interpreting the results of this forecast.
- Property tax revenue is impacted by real property prices, assessed valuation, ownership changes triggering reassessments, the level of development activity and the proportionate share of that activity to the rate of growth in the remainder of Santa Clara County. The recent assessed value reductions implemented by the County Assessor will have a dampening effect on the rate of revenue growth into the future until the value is restored to the current market value.
- Other Taxes:
 - Transient Occupancy Tax is impacted by the number of hotel rooms, the room rate and occupancy rate.
 - Utility Users Tax is dependent on the cost of energy, customer base and consumption levels.
- Investment earnings are based on the portfolio balance and yield.
- Licenses, Permits and Service Charges are primarily impacted by the level of development in the City.

Expenditures are trended based on historical experience assumptions about future growth rates using information gathered from various sources, extrapolations based on

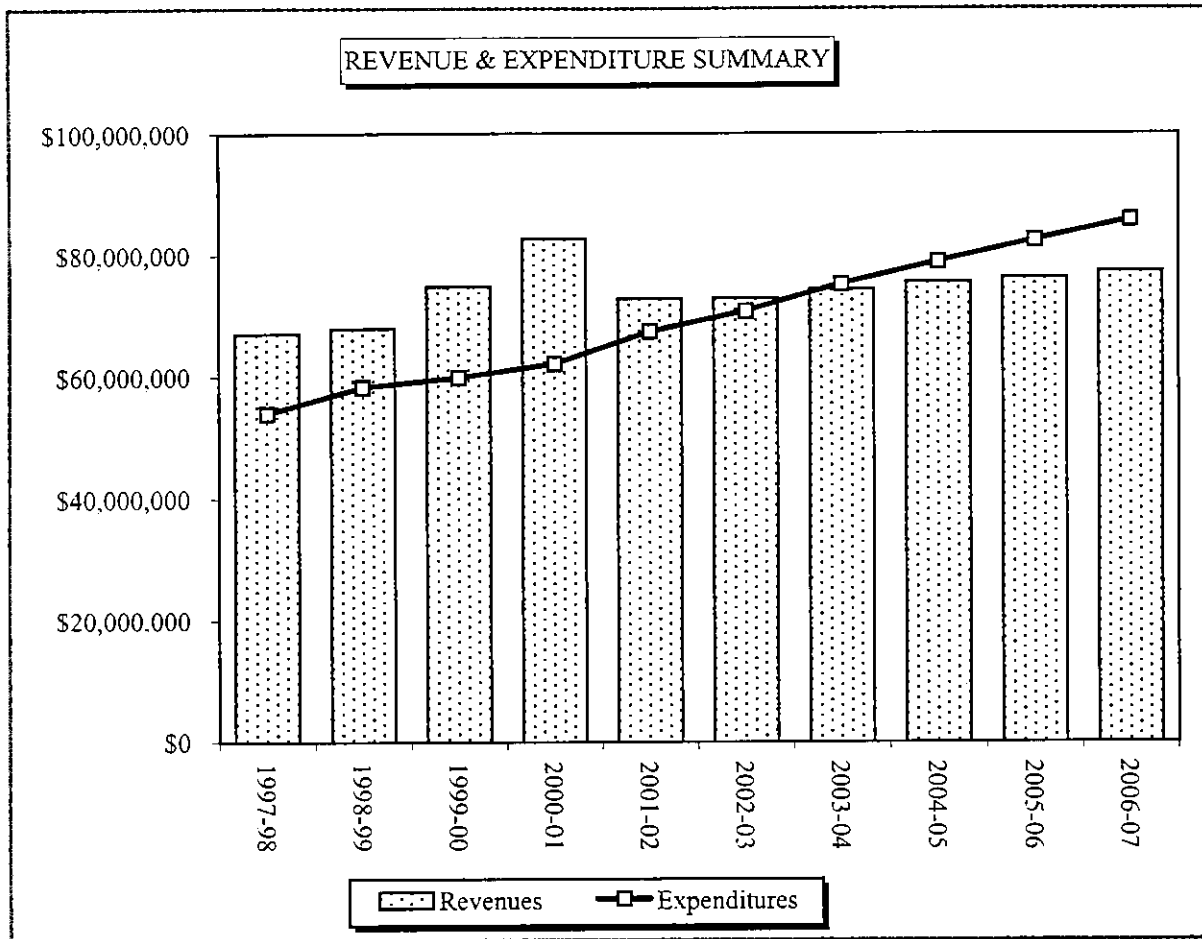
the 2001-02 fiscal year, previously negotiated labor agreements and future costs of the adopted Fiscal Year 2002-03 budget. The expenditure forecast does not assume any additional programs, positions or service level enhancements beyond those currently included in the 2002-03 fiscal year adopted budget.

Conclusion

The General Operating Fund balance in Fiscal Year 2003-04 indicates a negative balance of approximately \$852,000, growing to \$8.6 million by Fiscal Year 2006-07 and does not include any reservation for the Economic Stabilization Contingency after Fiscal Year 2002-03. The funding gap may be exacerbated by State actions implemented to resolve its fiscal crisis. This projection highlights the continuing necessity of managing the City's expenditures and developing all possible revenue sources.

The forecast is updated annually as part of the budget process. Revenue trends are closely monitored and compared to expenditures in the preparation of the budget and each fiscal year appropriate budget proposals will be made based on projected revenues.

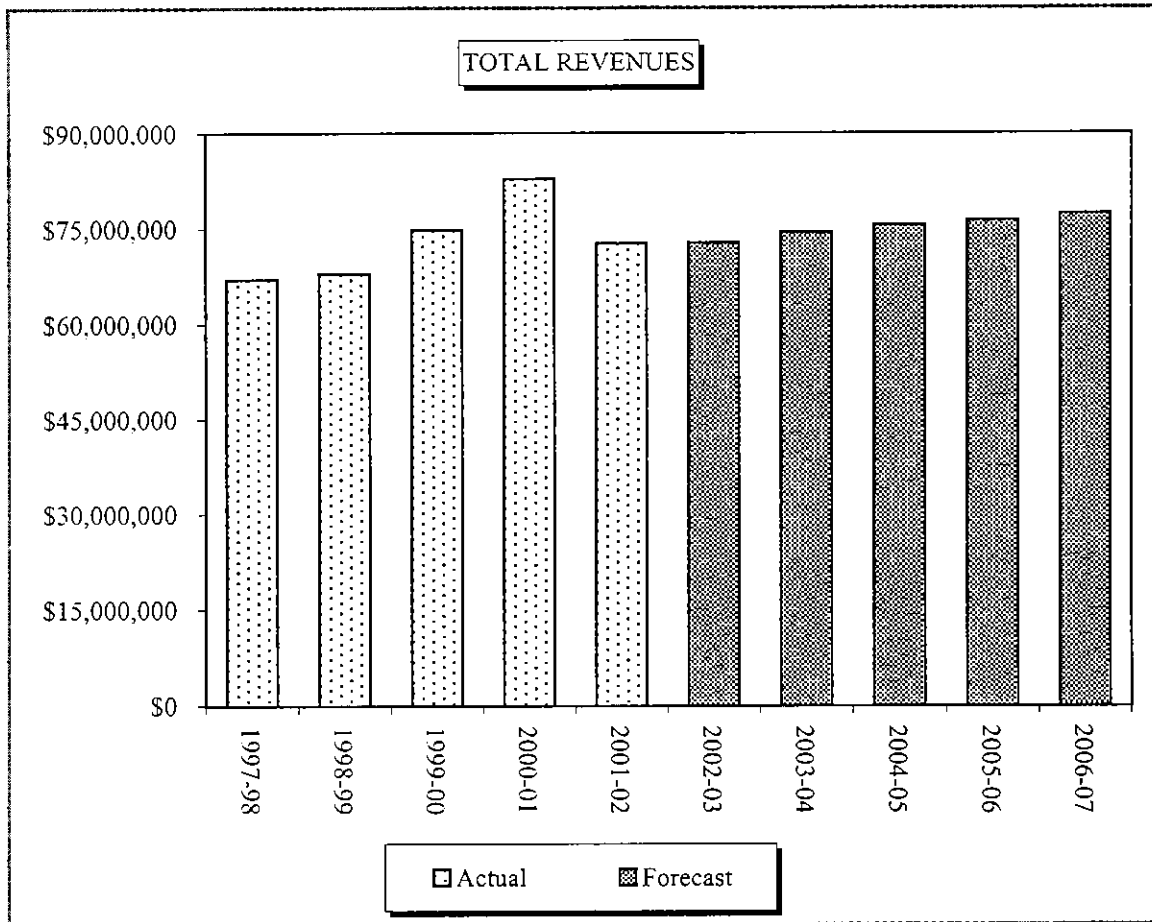
Included with this memo is a detailed presentation of the forecast summarizing, in graphic form, the revenues described above and the assumptions used to prepare the forecast.



<u>Fiscal Year</u>	<u>Annual Revenues</u>	<u>Annual Expenditures</u>
1997-98	67,027,000	54,056,000
1998-99	67,900,000	58,341,000
1999-00	74,712,000	59,846,000
2000-01	82,708,000	62,057,000
2001-02 *	72,631,000	67,281,000
2002-03 **	72,739,000	70,633,000
2003-04	74,254,000	75,106,000
2004-05	75,417,000	78,840,000
2005-06	76,216,000	82,467,000
2006-07	77,258,000	85,858,000

* Unaudited

** Adopted



<u>Fiscal Year</u>	<u>Annual Revenues</u>	<u>% Change</u>
1997-98	67,027,000	3.9%
1998-99	67,900,000	1.3%
1999-00	74,712,000	10.0%
2000-01	82,708,000	10.7%
2001-02 *	72,631,000	(12.2%)
2002-03 **	72,739,000	0.1%
2003-04	74,254,000	2.1%
2004-05	75,417,000	1.6%
2005-06	76,216,000	1.1%
2006-07	77,258,000	1.4%

* Unaudited

** Adopted

SALES TAX

The City of Mountain View receives 1.0 percent of every sales dollar subject to sales tax. The sales tax producers in the City are distributed primarily between retail and industrial businesses.

SALES TAX SOURCES

- Retail sales of tangible personal property to individuals and other businesses
- Use and excise taxes on business consumption of personal property
- State and County pooled sales tax allocated by population

ECONOMIC FACTORS

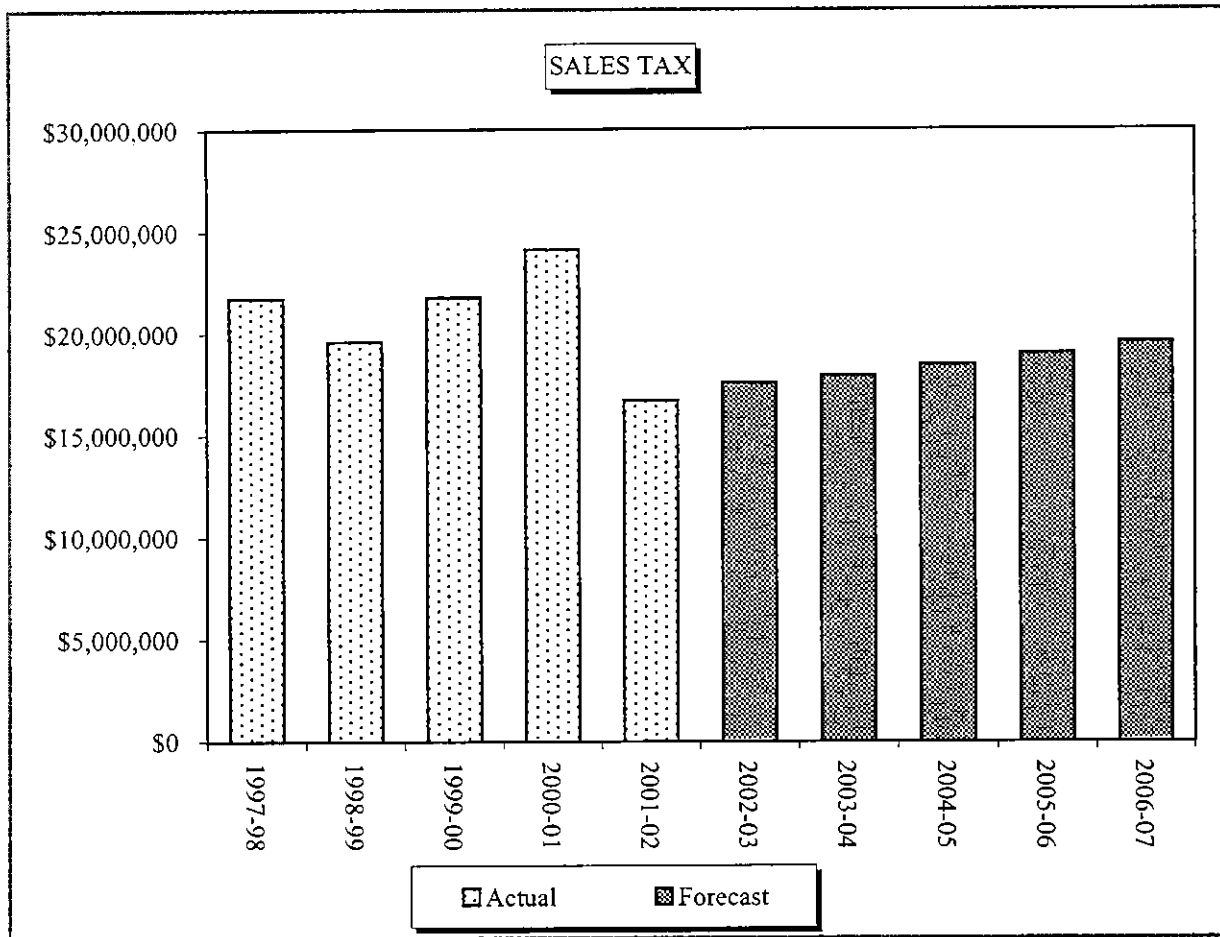
- Business expansions or relocations
- State of the economy
- Purchasing patterns
- State Board of Equalization allocation decisions
- Level of business-to-business sales
- Technological changes

HISTORY

Over the past decade, sales tax has been an extremely volatile revenue source. It dropped 9.3 percent in Fiscal Year 1990-91, climbed a total of 93.8 percent over the next six fiscal years and has fluctuated up and down since. These variations occur as businesses move in and out of the City, companies modify reporting and/or sales methods and the economy changes.

FORECAST

Fiscal Year 2002-03 includes a 5.1 percent increase, reflecting the anticipated slow recovery of the economy in the Bay Area.



<u>Fiscal Year</u>	<u>Annual Revenues</u>	<u>% Change</u>
1997-98	21,761,000	(5.1%)
1998-99	19,615,000	(9.9%)
1999-00	21,787,000	11.1%
2000-01	24,108,000	10.7%
2001-02 *	16,715,000	(30.7%)
2002-03 **	17,570,000	5.1%
2003-04	17,921,000	2.0%
2004-05	18,459,000	3.0%
2005-06	19,012,000	3.0%
2006-07	19,583,000	3.0%

* Unaudited

** Adopted

PROPERTY TAXES

Property taxes include the revenue generated from the City's share of the 1.0 percent levy assessed on the taxable value of real and personal property located within the City limits. The assessed value of secured real property that does not experience a change in ownership is increased at an inflationary rate not to exceed the California CPI or 2.0 percent, whichever is less. However, if a property changes ownership, it is reassessed at the current market value and new construction is valued at the cost of the construction. Unsecured tax on personal property such as computers and other equipment is assessed on the value of the property reported annually to the County by each business.

PROPERTY TAX SOURCES

- Property tax assessed on secured real property
- Property tax assessed on unsecured personal property

ECONOMIC FACTORS

- General economic conditions
- Proposition 13—determines methodology of tax application, limits the annual assessed value increase and sets the tax rate
- Consumer Price Index (CPI)
- Property demand, sales and values
- New development
- Timeliness of County processing of new development and ownership transfers to the tax roll
- State legislation regarding tax allocation
- Assessment appeals

HISTORY

During Fiscal Years 1992-93 and 1993-94, the State transferred a total of \$2.5 million of City secured property tax revenues to schools ("ERAF Shift") as a way of solving its own budget shortfall. This is an ongoing annual loss to the City, which increases every fiscal

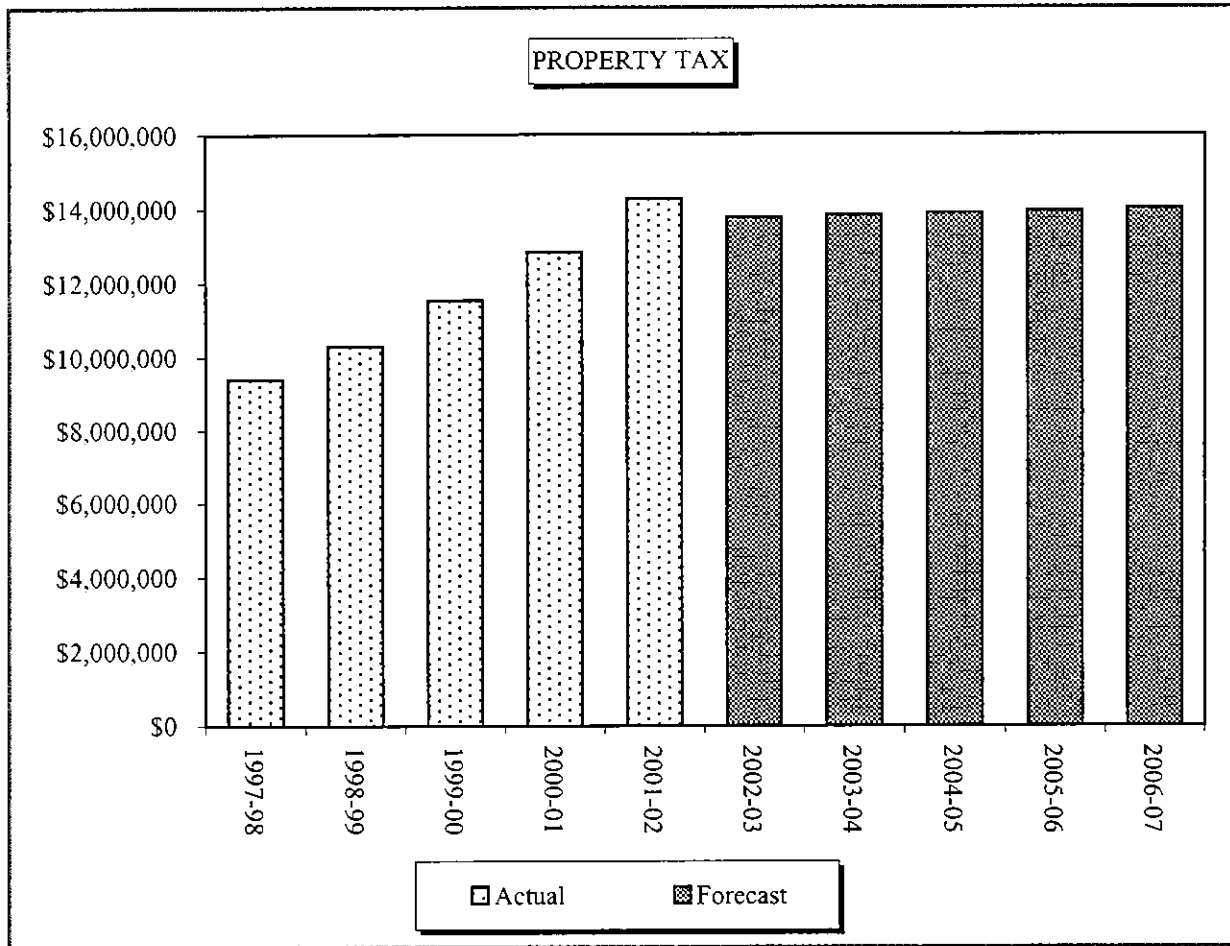
year as assessed value increases and totals \$3.9 million for Fiscal Year 2001-02. The City has lost \$26.4 million since the inception of ERAF. In addition, assessed values declined as a result of the depressed economic climate, and commercial and residential property owners filed successful assessment appeals which resulted in reduced secured and unsecured property tax revenue. The appeal activity was so high that over several fiscal years, the County was consumed with processing appeals and unable to add new development to the tax roll in a timely manner, thereby delaying payment of property tax revenue the City and other County agencies were entitled to. Beginning in Fiscal Year 1997-98, the County made significant progress adding new development to the roll and restoring assessments reduced in prior fiscal years. Over the next few years, the lack of housing for the growing employment base in Silicon Valley and the capital gains from stock sales combined to drive housing prices and taxable assessed values to an unprecedented level. Then last fiscal year the economy stalled and property sales slowed.

FORECAST

Fiscal Year 2002-03 includes a 3.0 percent increase in assessed value based on the County's current projection of the City's assessed value. Any properties purchased at the peak of the market (1999-2001) will most likely qualify for a reassessment. The County proactively reviewed and adjusted the value of properties and solicited information from property owners in an attempt to avoid the significant assessment appeal activity experienced in the 1990s. The effect of reduced assessments on the total tax bill will not be known until the end of August.

The four forecast years assume the assessed value of secured property will increase at the 2.0 percent annual maximum with no commercial or residential development.

The current level of commercial vacancies will negatively impact unsecured property tax generated from commercial property lease agreements. The unsecured property tax projection for the 2002-03 fiscal year has been reduced 85.0 percent and is increased 2.0 percent annually in the four forecast years.



<u>Fiscal Year</u>	<u>Annual Revenues</u>	<u>% Change</u>
1997-98	9,391,000	16.7%
1998-99	10,298,000	9.7%
1999-00	11,534,000	12.0%
2000-01	12,825,000	11.2%
2001-02 *	14,262,000	11.2%
2002-03 **	13,752,000	(3.6%)
2003-04	13,815,000	0.5%
2004-05	13,877,000	0.4%
2005-06	13,937,000	0.4%
2006-07	13,995,000	0.4%

* Unaudited

** Adopted

OTHER TAXES

Other Taxes is comprised of Transient Occupancy Tax, Business License Tax and Utility Users Tax.

OTHER TAXES SOURCES

- Transient Occupancy Tax is a 10.0 percent tax assessed on hotel and motel occupancies. Any occupancy by a government employee or a stay exceeding 30 consecutive days is exempt from the tax. This tax is self-reported on a quarterly basis by hotels and motels within the City limits and is audited by the City on a rotating basis.
- The Business License Tax is assessed on all businesses known to be operating in Mountain View and billed annually. The tax rate varies by type of business.
- Utility Users Tax is a 3.0 percent tax assessed on the sale of all commercial and residential intrastate telephone communication and all electricity and gas consumption.

ECONOMIC FACTORS

- Transient Occupancy: Number of hotel rooms, the room rate, the occupancy rate and the number of exemptions.
- Business License Tax: Number and types of businesses licensed by the City and the applicable tax rate.
- Utility Users Tax: Customer base, consumption and price of energy.

HISTORY

Transient Occupancy Tax: The tax rate was last modified in June 1991 from 8.0 percent to 10.0 percent. Occupancy rates throughout the County continued to increase over the past decade until late Fiscal Year 2000-01.

Business License Tax: This revenue does not change significantly from year to year as the tax rate is very low.

Utility Users Tax: New commercial and residential development and demand for multiple phone lines increased the customer base in the past fiscal years. As a result of the commercial property vacancies which reduced the customer base, this revenue was less than anticipated in the budget for Fiscal Year 2001-02.

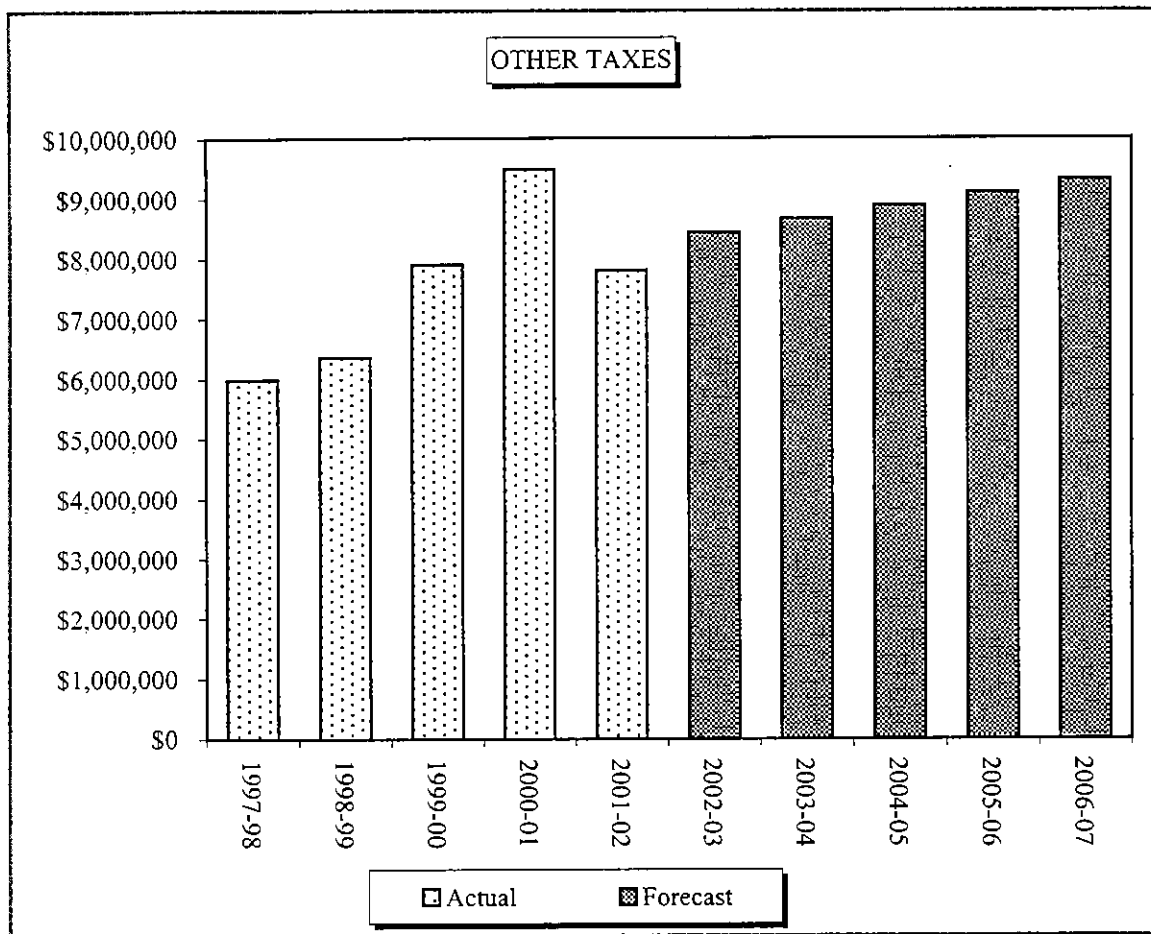
Utility Users Tax is calculated on the consumer cost of the energy used, as the cost increases the tax increases. During Fiscal Year 2000-01, consumer gas rates increased and in January and March 2001 the California Public Utilities Commission (CPUC) approved two increases to electricity rates. There was an increase in City revenue from the first electricity rate increase implemented in February 2001. However, since then, the price of gas has dropped and customers have responded to conservation efforts and reduced their usage of electricity.

FORECAST

Transient Occupancy Tax: The Fiscal Year 2002-03 budget assumes a small increase in occupancy level, reflecting a slight increase in business travel. The four forecast years assume an approximate 2.0 percent annual increase in revenue.

Business License Tax: As the tax is low, the license revenue has remained fairly constant over the past several years; therefore, forecast years are based on prior fiscal years' actuals.

Utility Users Tax: The Fiscal Year 2002-03 budget assumes an increase reflecting the expectation of a slightly expanded customer base from newly rented commercial space. The four forecast years include a 3.0 percent annual increase to adjust for some expansion of the customer base and customer demand with the anticipated additional occupancy of some currently vacant space.



<u>Fiscal Year</u>	<u>Annual Revenues</u>	<u>% Change</u>
1997-98	5,990,000	12.5%
1998-99	6,357,000	6.1%
1999-00	7,908,000	24.4%
2000-01	9,487,000	20.0%
2001-02 *	7,806,000	(17.7%)
2002-03 **	8,428,000	8.0%
2003-04	8,660,000	2.8%
2004-05	8,880,000	2.5%
2005-06	9,097,000	2.4%
2006-07	9,319,000	2.4%

* Unaudited

** Adopted

USE OF MONEY AND PROPERTY

Use of Money and Property is comprised of investment earnings and revenue from rents and leases of City property. Investment earnings are generated from the General Fund's share of the City's pooled investment portfolio. Rents and Leases revenue is generated from rental properties and lease agreements.

USE OF MONEY AND PROPERTY SOURCES

- City pooled investment portfolio monthly interest allocation
- Leased properties, including:
 - North Charleston site
 - Crittenden site
 - Michaels at Shoreline
 - Boathouse
- Amphitheatre concessions

ECONOMIC FACTORS

- Economy
- Interest rates
- Portfolio balance
- Lease agreements
- Amphitheatre concert season

HISTORY

Investment Earnings: The unaudited Fiscal Year 2001-02 investment earnings are higher than adopted as a result of a significantly increased portfolio balance. The Federal Reserve lowered interest rates numerous times since January 2001, which has decreased the yield on new investment instruments purchased since then.

Rents and Leases: In March 1995, the City negotiated and signed a lease agreement with Silicon Graphics, Inc. (SGI) for the North Charleston site. In September 1996, the City negotiated and signed a lease agreement with SGI for the Crittenden site. During Fiscal Year 2000-01, Goldman Sachs purchased the SGI buildings on the North

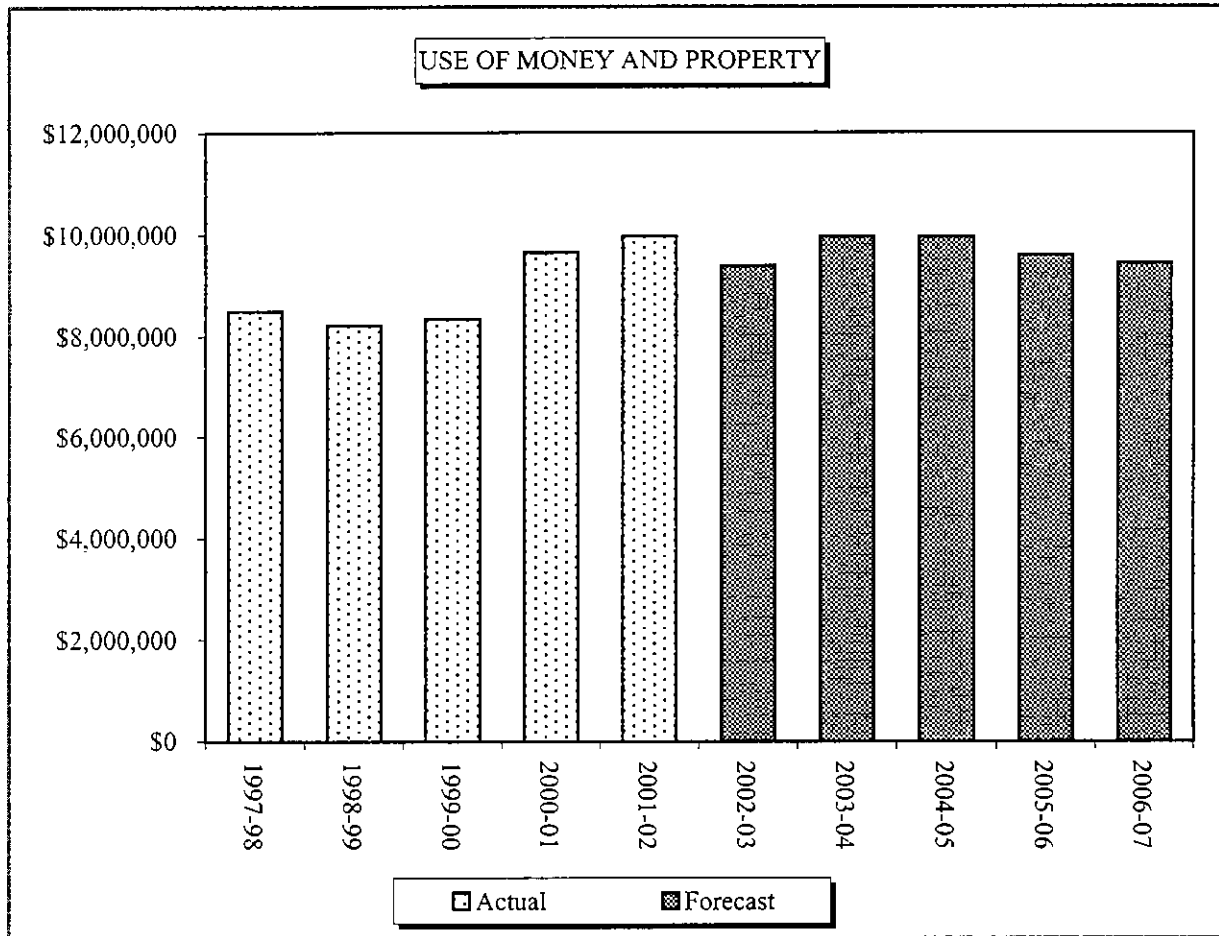
Charleston and Crittenden sites. SGI has assigned the lease agreements with the City to Goldman Sachs for these properties. The leases contain annual increases to the rent payments.

The City receives between 4.75 percent and 6.75 percent of the revenue from Amphitheatre concessions, as allowed in the contract.

FORECAST

Investment Earnings: The projection for the Fiscal Year 2002-03 adopted budget is based on an average portfolio rate of 5.0 percent and for the four forecast years, the yield is held level at a 5.5 percent portfolio yield.

Rents and Leases: The City will remain at the maximum percentage allowed in the contract with Clear Channel.



<u>Fiscal Year</u>	<u>Annual Revenues</u>	<u>% Change</u>
1997-98	8,492,000	12.1%
1998-99	8,210,000	(3.3%)
1999-00	8,338,000	1.6%
2000-01	9,644,000	15.7%
2001-02 *	9,959,000	3.3%
2002-03 **	9,384,000	(5.8%)
2003-04	9,952,000	6.1%
2004-05	9,950,000	0.0%
2005-06	9,587,000	(3.6%)
2006-07	9,430,000	(1.6%)

* Unaudited

** Adopted

OTHER REVENUE

Other revenue is comprised of Franchise Fees, Licenses and Permits, Fines and Forfeitures, Intergovernmental, Service Charges, Miscellaneous and Interfund Revenue/Transfers.

OTHER REVENUE SOURCES

- The franchisees are required to pay Franchise Fees as compensation to the City for the use of City property while providing a commercial service to Mountain View businesses and residents.
- Licenses and Permits and Service Charge revenues are generated from private development activity and recreation classes.
- Fines and Forfeitures are generated from citations issued by the City and the California Highway Patrol.
- Intergovernmental includes all revenue derived from other government agency sources, the largest of which is motor vehicle license fees (MVLFF).
- Miscellaneous Revenue includes revenue from a variety of sources.
- Interfund Revenues are reimbursements to the General Operating Fund from other funds and capital improvement projects for services provided. Interfund Transfers are transfers from other funds.

ECONOMIC FACTORS

- State of the economy
- Franchise agreements and revenues generated by franchisees
- Level of development activity
- Actions by the State Legislature
- Level of service provided by staff budgeted in the General Operating Fund to other funds and capital improvement projects
- State and Federal regulations, legislation and funded programs

HISTORY

Franchise Fees: Franchise revenue generated from gas and electricity usage has steadily increased over the past several fiscal years as a result of significant commercial and residential development. This new development completely masked the impact of the PG&E rate reduction effective March 1998.

The City's refuse hauler, Foothill Disposal is required to pay a franchise fee which has also increased with an expanded customer base.

Although the unaudited revenue for Fiscal Year 2001-02 exceeds the prior fiscal year, both of these Franchise Fee sources have been negatively impacted by conservation efforts and the closure of businesses.

Licenses and Permits and Service Charges: This revenue source has seen significant growth over the past several fiscal years as new development continued at an unexpected level. Revenues decreased significantly last fiscal year as large commercial development projects have ceased.

Intergovernmental Revenue: During the past decade, many revenues from the State have been reduced or eliminated. However, motor vehicle license fees (MVLF) collected on vehicle registrations have steadily increased. MVLF were reduced by the State Legislature in Fiscal Year 1997-98 with the losses to local agencies offset by payments from the State's General Fund. Local agencies are dependent upon the State to continue to backfill the loss of that portion of MVLF.

Interfund Revenues/Transfer: Every two years, the City's A-87 cost allocation plan is updated to accurately reflect the services provided to other funds and capital projects by staff funded from the General Operating Fund.

FORECAST

Franchise Fees: The projection for the Fiscal Year 2002-03 adopted budget includes an increase in the fee collected from the City's refuse hauler, Foothill Disposal Company, resulting from an increase in revenue to Foothill Disposal. The four forecast years assume incrementally increasing revenue from Foothill Disposal Company and fairly constant revenues from the other Franchisees.

As discussed during the budget process, the California Department of Water Resources (CDWR) has stated that the sale of energy purchased from non-PG&E sources (i.e., out-of-State producers) is exempt from the franchise fee component normally paid to local agencies. The Public Utilities Commission (PUC) has ordered the distributors (PG&E) to track and pay franchise fees to municipalities on the sale of this electricity until they can resolve this issue. PG&E estimates that approximately 23.0 percent of energy sold

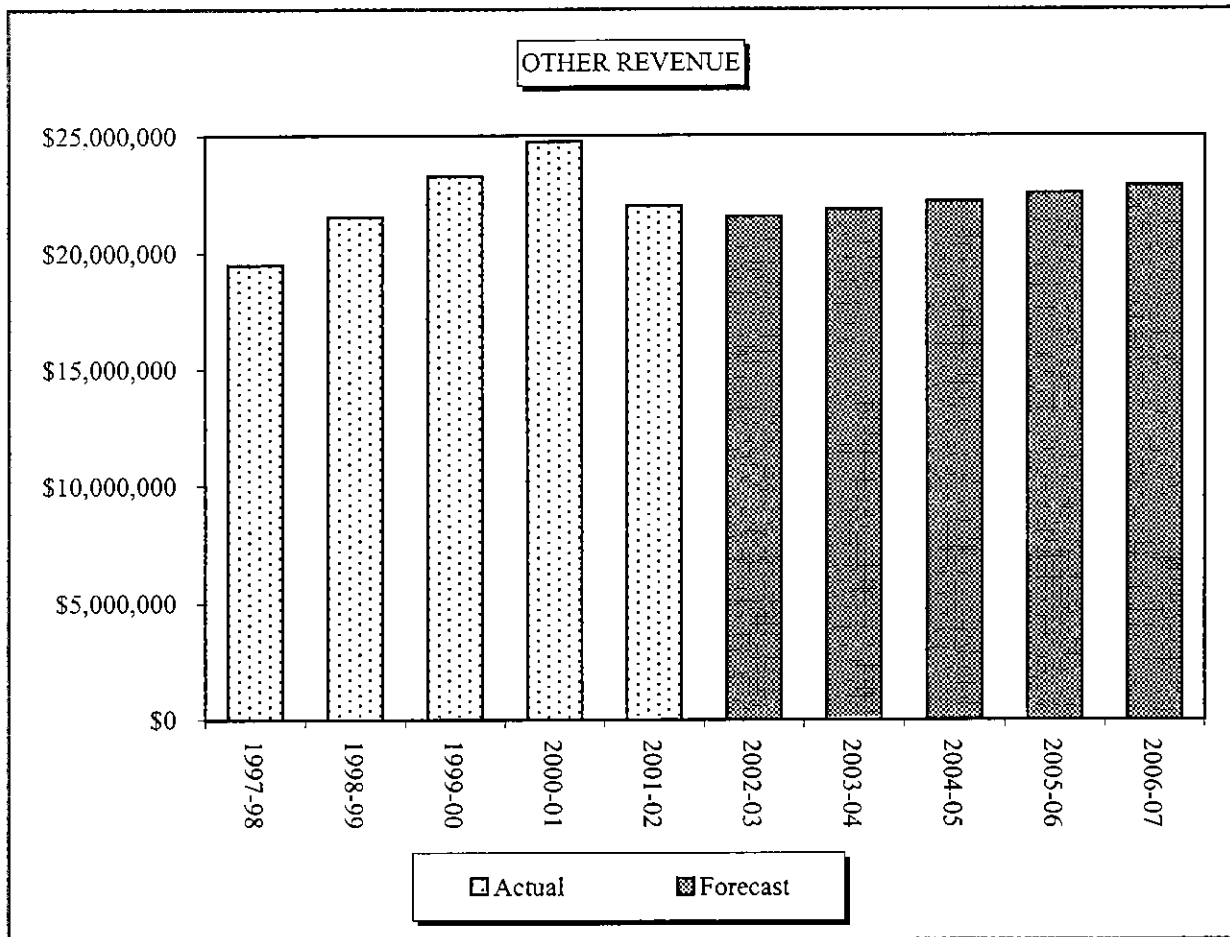
to California customers is energy from a non-PG&E source. This would be a \$110,000 reduction to the City's General Operating Fund revenues as PG&E would either request the money received by the City for 2001 be repaid to PG&E or they would reduce future year payments. The adopted budget is based on receiving the full franchise fee amount and is not adjusted for this potential loss of revenue.

Licenses and Permits and Service Charges: This revenue is expected to decline significantly during the Fiscal Year 2002-03 budget, reflecting the precipitous slowdown in private construction activity, and hold steady at an ongoing average base level for the four forecast years.

Intergovernmental Revenue: The May revision of the Fiscal Year 2002-03 State budget proposes rolling back the State backfill of MVLF from 67.5 percent to the 25.0 percent level in effect at the time the current administration took office. The revision states there will be no impact to local agencies, leaving staff to assume the automobile owners will pay the increased MVLF.

Interfund Revenue/Transfer: The cost allocation plan revision is still under review, but a portion of the revised numbers have been included in the adopted budget. After completion of the review, a revision may be recommended.

The budget restructuring proposals adopted by Council are all included in this revenue category for Fiscal Year 2002-03 and the four forecast years.



<u>Fiscal Year</u>	<u>Annual Revenues</u>	<u>% Change</u>
1997-98	19,499,000	4.1%
1998-99	21,526,000	10.4%
1999-00	23,251,000	8.0%
2000-01	24,750,000	6.4%
2001-02 *	21,995,000	(11.1%)
2002-03 **	21,545,000	(2.0%)
2003-04	21,846,000	1.4%
2004-05	22,191,000	1.6%
2005-06	22,523,000	1.5%
2006-07	22,871,000	1.5%

* Unaudited

** Adopted

LOAN REPAYMENTS

This revenue source reflects the annual repayment of loan obligations from other funds.

LOAN REPAYMENT SOURCES

- Shoreline Regional Park Community
- Revitalization Authority

ECONOMIC FACTORS

- Financial condition of the paying funds

HISTORY

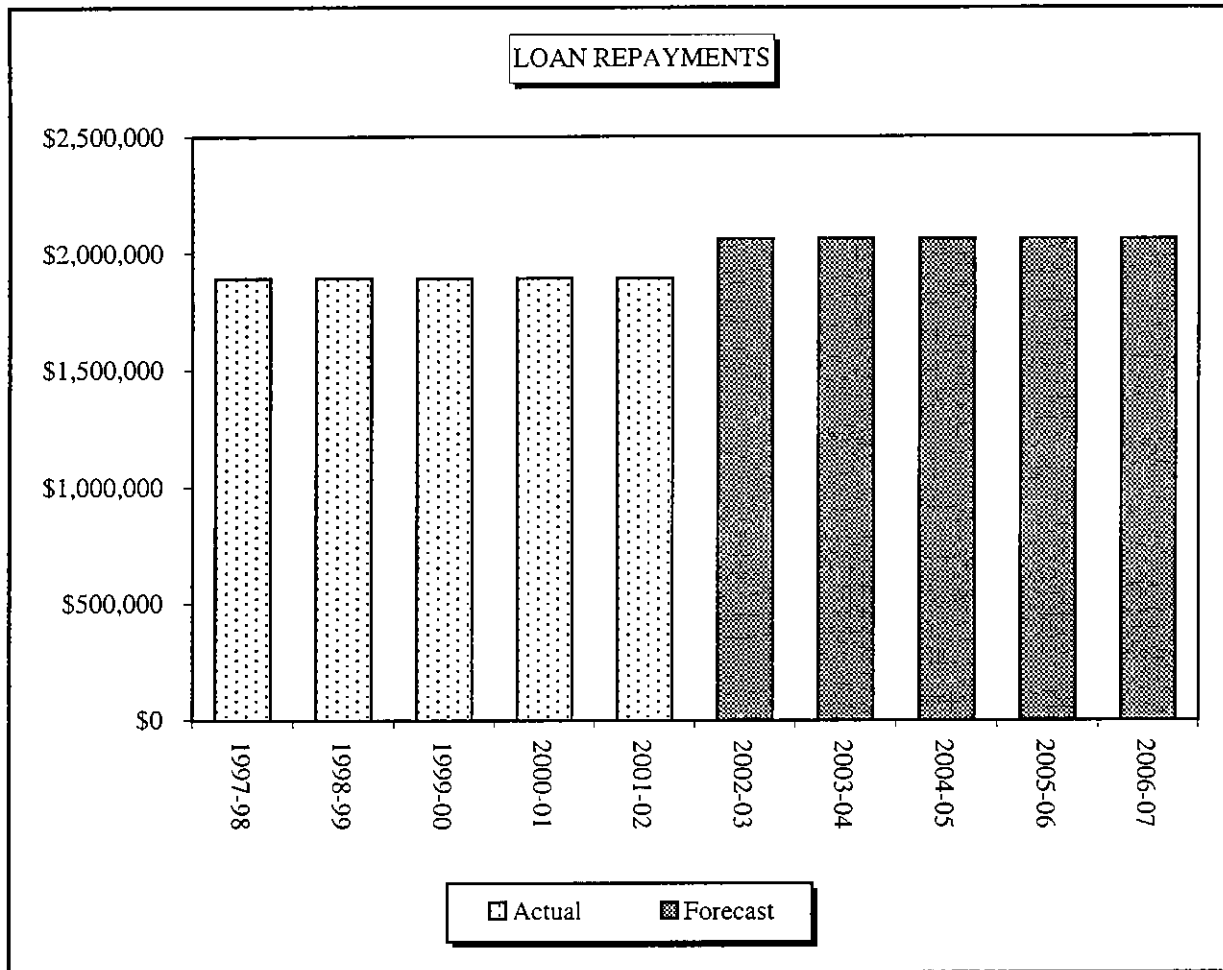
Shoreline Regional Park Community (SRPC): The General Fund made a series of loans to this fund beginning in Fiscal Year 1985-86, which eventually totaled \$17.8 million. The loans were combined together into a consolidated loan during Fiscal Year 1988-89. Although this revenue is one-time in nature, it will not be paid off until Fiscal Year 2015-16 and is currently included as operating revenue.

Revitalization Authority: The General Fund also made a series of loans to this fund in 1989. In the Fiscal Year 1993-94 budget, the Council approved deferring the loan repayments a minimum of three years at no interest and extending the payoff until Fiscal Year 2013-14. Most recently, the financial condition of the Authority has improved, but loan repayments continued to be deferred.

FORECAST

The SRPC loan repayments are the same annual amount through the life of the debt.

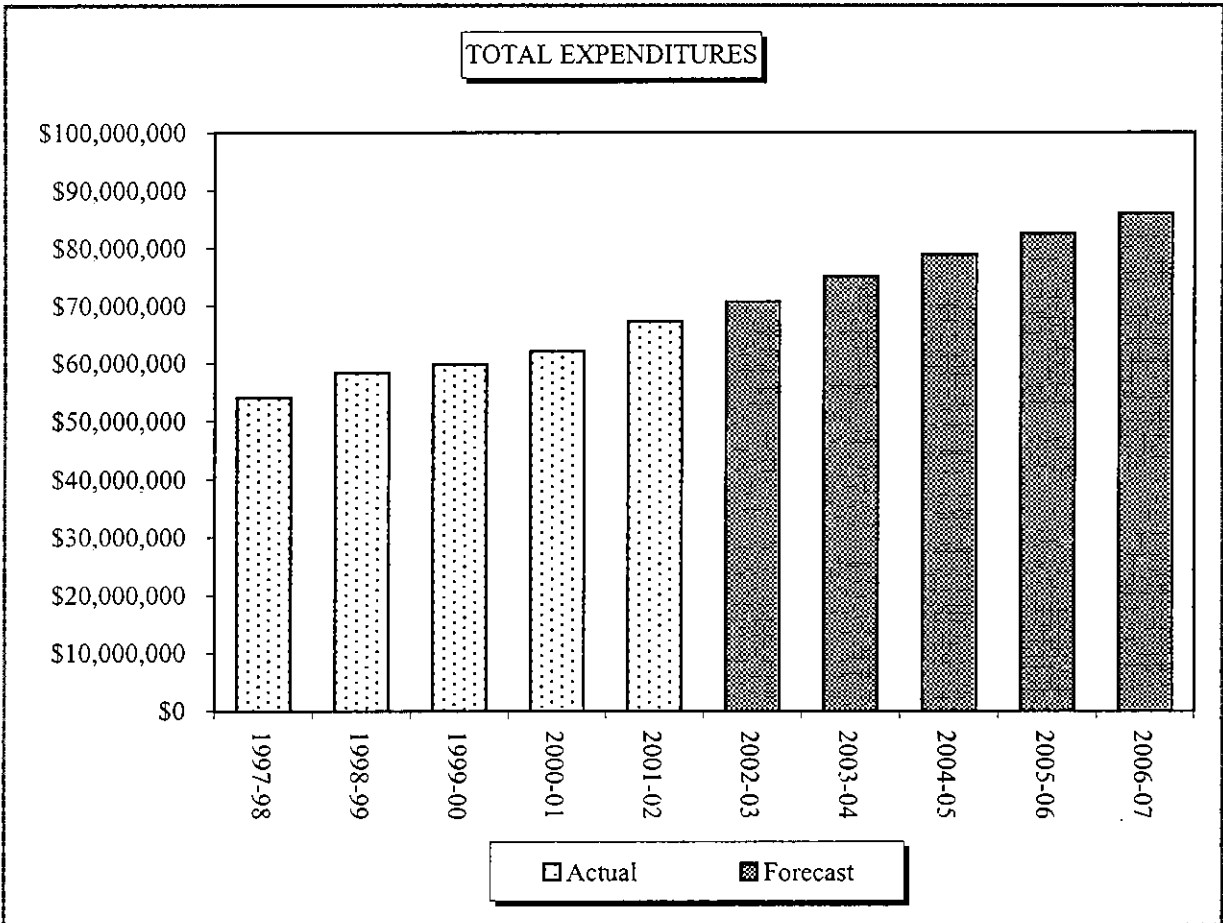
The loan to the Revitalization Authority has been reamortized to the end of the life of the District at a 6.0 percent interest rate. The annual loan payments in the amount of \$165,500 will begin in Fiscal Year 2002-03.



<u>Fiscal Year</u>	<u>Annual Revenues</u>	<u>% Change</u>
1997-98	1,894,000	0.0%
1998-99	1,894,000	0.0%
1999-00	1,894,000	0.0%
2000-01	1,894,000	0.0%
2001-02 *	1,894,000	0.0%
2002-03 **	2,060,000	8.8%
2003-04	2,060,000	0.0%
2004-05	2,060,000	0.0%
2005-06	2,060,000	0.0%
2006-07	2,060,000	0.0%

* Unaudited

** Adopted



Fiscal Year	Annual Expenditures	% Change
1997-98	54,056,000	6.6%
1998-99	58,341,000	7.9%
1999-00	59,846,000	2.6%
2000-01	62,057,000	3.7%
2001-02 *	67,281,000	8.4%
2002-03 **	70,633,000	5.0%
2003-04	75,106,000	6.3%
2004-05	78,840,000	5.0%
2005-06	82,467,000	4.6%
2006-07	85,858,000	4.1%

* Unaudited

** Adopted

SALARIES AND BENEFITS

The Salaries and Benefits category makes up the largest component of General Operating Fund expenditures and represents all personnel-related costs. There are currently four union-represented groups in the City: the Police Officers Association (POA sworn and nonsworn), the Mountain View Professional Firefighters Union (IAFF No. 1965) and Service Employees International Union (SEIU No. 715). The remaining employees are Management, Professional and certain Front-Line positions. The outcome of negotiations with each unit is a major factor in salary and benefit costs.

CATEGORIES

- Salaries
- Wages
- Overtime
- Other pays (e.g., holiday-in-lieu, out-of-class, etc.)
- Medical/dental premiums
- Public Employees Retirement System (PERS)
- Other benefits (e.g., long-term disability, FICA, etc.)
- Workers' Compensation

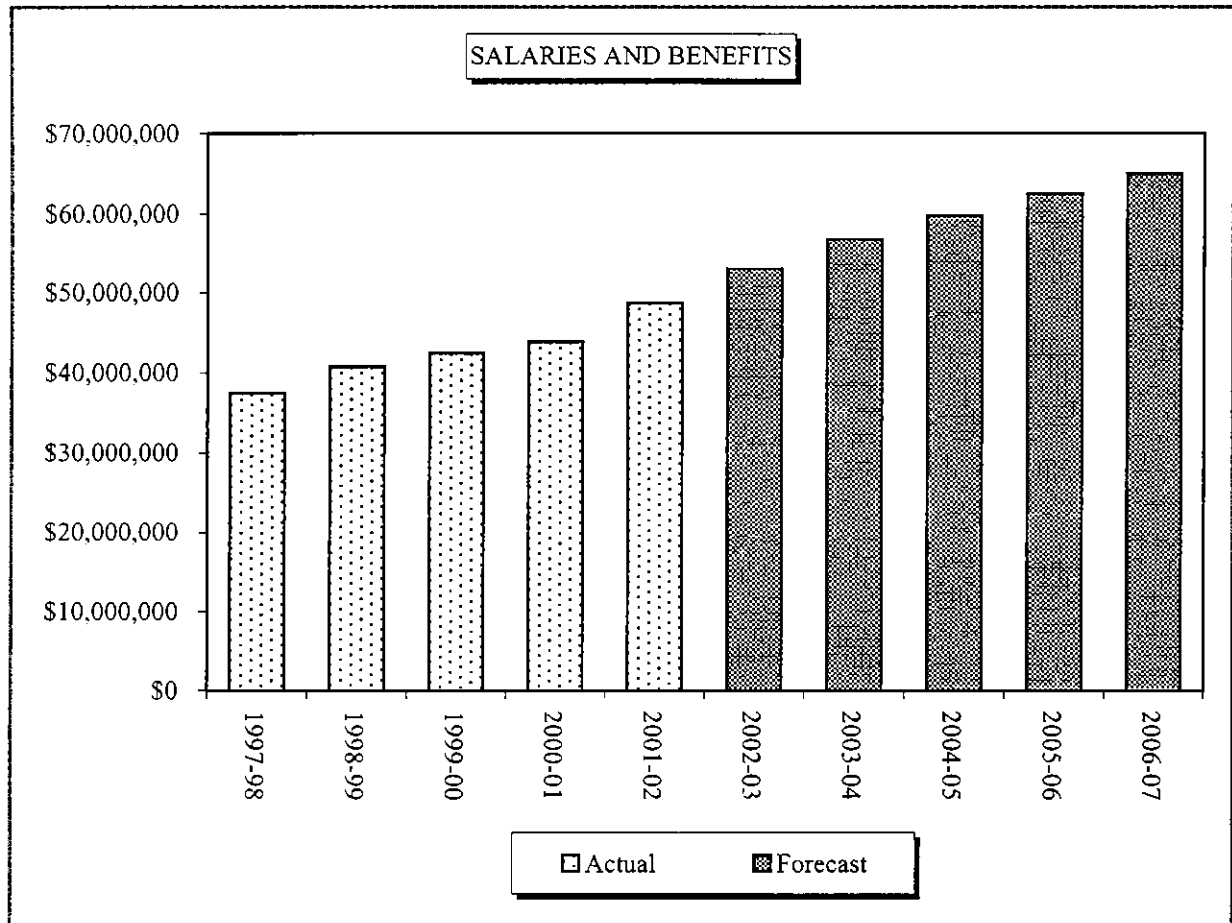
HISTORY

During the recession in the early 1990s, the City experienced retrenchment, eliminating a total of 31.5 General Fund positions. Over the next few fiscal years, the Council approved service enhancements in the highest-priority areas. In Fiscal Years 1994-95 through 1999-2000, Council approved additional positions for the City Attorney's Office, Community Development, Community Services, Library Services, Fire and Police Departments. No new positions were included in the Fiscal Year 2000-01 budget and 13.0 were added during the Fiscal Year 2001-02 budget process. Actual expenditures are historically lower than budget as a result of a variety of factors, including vacant positions and turnover.

FORECAST

As discussed during the budget process, the adopted budget includes the elimination of 4.0 full-time positions and 4.6 hourly FTEs, and the unfunding of 11.0 positions.

The forecast also includes cost-of-living adjustments agreed to in the current IAFF No. 1965, POA sworn and nonsworn and SEIU No. 715 Memorandums of Understandings (MOU) and the merit and salary increases approved for the remaining groups. In addition, any other final benefit modifications are reflected in the Fiscal Year 2002-03 adopted budget. Public Employees Retirement System (PERS) rates reflect the normal cost rate calculated by PERS in the most recent actuarial. The forecast years include projected merit and cost-of-living adjustment for all groups not covered by labor agreements. The remaining benefits, primarily employee insurance coverages, are included in the forecast with projected inflationary increases.



<u>Fiscal Year</u>	<u>Annual Expenditures</u>	<u>% Change</u>
1997-98	37,422,000	8.1%
1998-99	40,714,000	8.8%
1999-00	42,394,000	4.1%
2000-01	43,838,000	3.4%
2001-02 *	48,659,000	11.0%
2002-03 **	52,932,000	8.8%
2003-04	56,683,000	7.1%
2004-05	59,613,000	5.2%
2005-06	62,414,000	4.7%
2006-07	64,941,000	4.0%

* Unaudited

** Adopted

SERVICES AND SUPPLIES

The Services and Supplies category makes up the second largest component of General Fund expenditures and represents costs of operations.

CATEGORIES

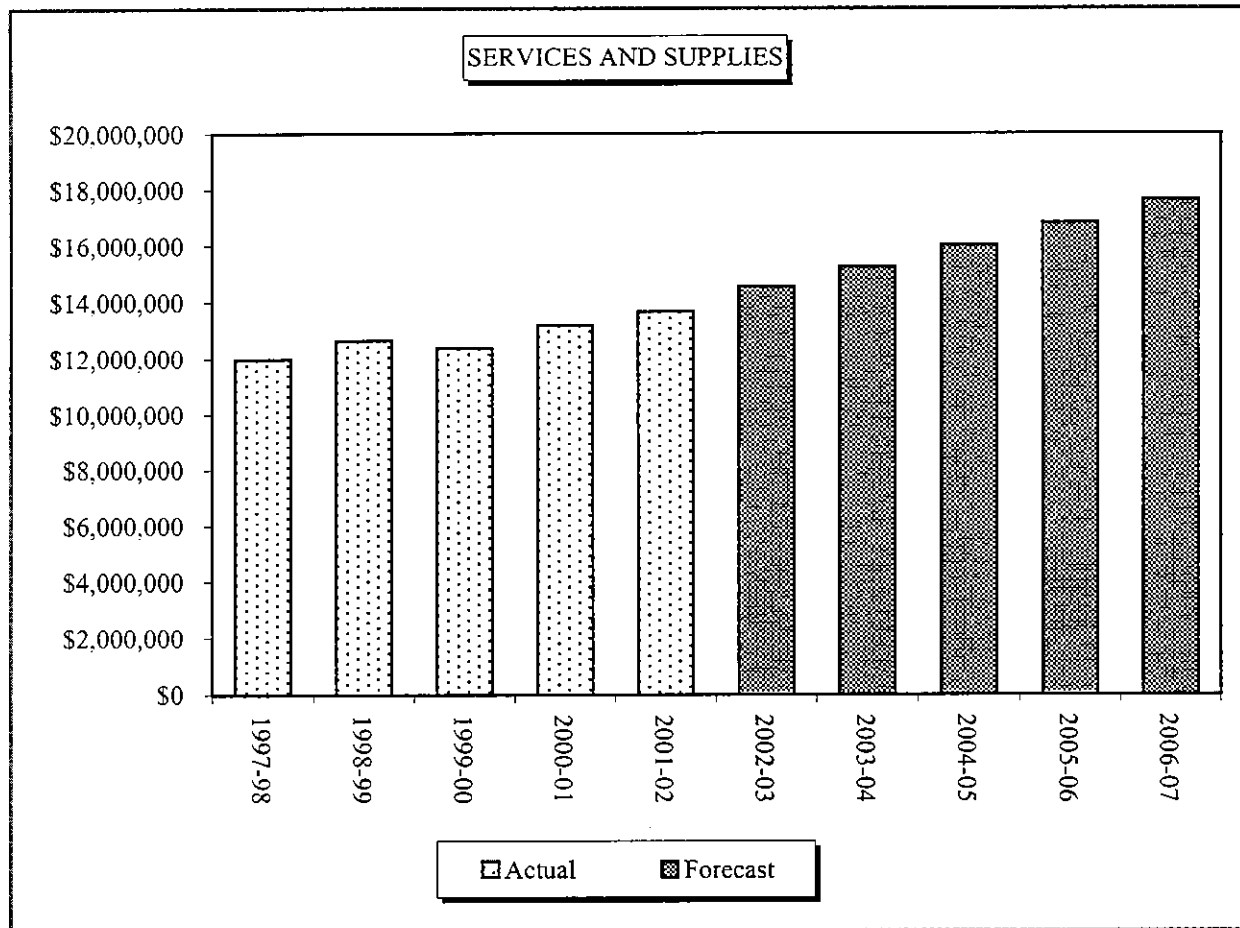
- Materials and Supplies
- Maintenance and Operations
- Utilities
- Professional/Technical Services
- Training, Conference and Travel
- Miscellaneous Expenditures

HISTORY

Since Fiscal Year 1995-96, the Council has approved increases (averaging 7.8 percent annually) for the highest-priority programs.

FORECAST

Fiscal Year 2002-03 includes a 5.0 percent reduction from the prior fiscal year adopted budget, a net of Fiscal Year 2002-03 adopted budget reductions and some unavoidable increases. A 5.0 percent increase is included in each of the subsequent forecast years. This increase is based on historical averages, after adjusting for significant programs, and the information gathered from the State and other sources.



<u>Fiscal Year</u>	<u>Annual Expenditures</u>	<u>% Change</u>
1997-98	11,984,000 (1)	16.6%
1998-99	12,648,000 (1)	5.5%
1999-00	12,377,000	(2.1%)
2000-01	13,194,000	6.6%
2001-02 *	13,658,000 (1)	3.5%
2002-03 **	14,524,000	6.3%
2003-04	15,244,000	5.0%
2004-05	16,006,000	5.0%
2005-06	16,807,000	5.0%
2006-07	17,647,000	5.0%

* Unaudited

** Adopted

(1) Includes Interfund Transfers

CAPITAL OUTLAY AND EQUIPMENT REPLACEMENT

The Capital Outlay and Equipment Replacement category represents the new and replacement equipment needs of the City. Although, individually, Capital Outlay is one-time in nature, the City includes this category in the operating budget to reflect capital needs on an annual basis. In addition to the General Operating Fund, the Revitalization Authority, Shoreline Golf Links, Parking District, Shoreline Regional Park Community, Water, Wastewater, Solid Waste Management and Fleet Maintenance Funds make annual contributions based on the equipment used by those operations. Equipment replacement expenditures are transferred to and paid by the Equipment Replacement Reserve Fund.

CATEGORIES

- Capital Outlay
- Equipment Replacement

HISTORY

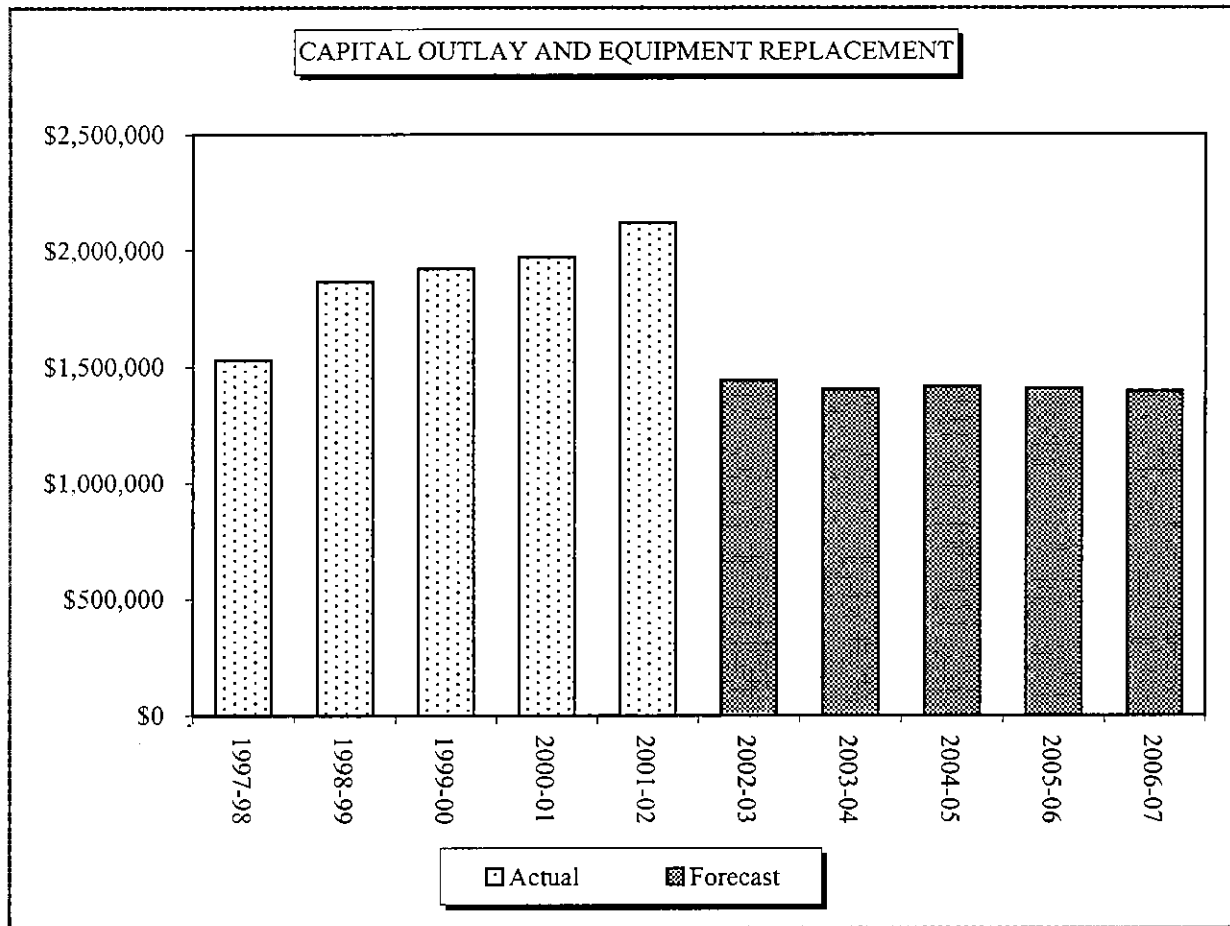
Capital Outlay: Since Fiscal Year 1993-94, the annual expenditures have grown as a result of an increased level of technology and related equipment, and an increase in the number and quality of safety vehicles.

Equipment Replacement: The Equipment Replacement Reserve was initially funded in Fiscal Year 1992-93 with year-end General Fund carryover. Since that time, the Council has approved transfers to this fund from the year-end General Fund carryover to supplement the General Operating Fund's share of funding. The General Operating Fund increased this funding by \$200,000 annually from Fiscal Year 1994-95 until it was fully funding its share by Fiscal Year 2001-02.

FORECAST

Capital Outlay: The Fiscal Year 2002-03 adopted budget includes an ongoing \$100,000 reduction to capital outlay.

Equipment Replacement: The Fiscal Year 2002-03 adopted budget includes a \$500,000 reduction in the General Operating Fund's contribution to Equipment Replacement.



<u>Fiscal Year</u>	<u>Annual Expenditures</u>	<u>% Change</u>
1997-98	1,529,000	(3.0%)
1998-99	1,863,000	21.8%
1999-00	1,919,000	3.0%
2000-01	1,969,000	2.6%
2001-02 *	2,118,000	7.6%
2002-03 **	1,440,000	(32.0%)
2003-04	1,402,000	(2.6%)
2004-05	1,413,000	0.8%
2005-06	1,403,000	(0.7%)
2006-07	1,394,000	(0.6%)

* Unaudited

** Adopted

SELF-INSURANCES

The Insurances category represents the General Operating Fund's share of insurance costs in the Internal Service Funds. Special Funds and the Enterprise Funds also contribute to benefit insurances.

CATEGORIES

- General Liability
- Retirees' Health Care
- Vision Care

HISTORY

General Liability: In Fiscal Year 1993-94, the City joined a liability insurance pool (ACCEL) with other select cities for the provision of \$19.5 million coverage in excess of the current \$500,000 self-insured retention (SIR) for total coverage of \$20.0 million. Beginning in Fiscal Year 2001-02, funding of liability insurance was spread to all funds which receive a benefit from this insurance coverage. Previously, the cost was funded entirely by the General Operating Fund.

Retirees' Health Care and Vision Care: The medical premiums for retirees are paid by the Retirees' Health Fund, and vision care claims and reimbursement for safety glasses are paid by the Employee Benefits Fund. The annual cost of both of these programs is allocated to all operating funds.

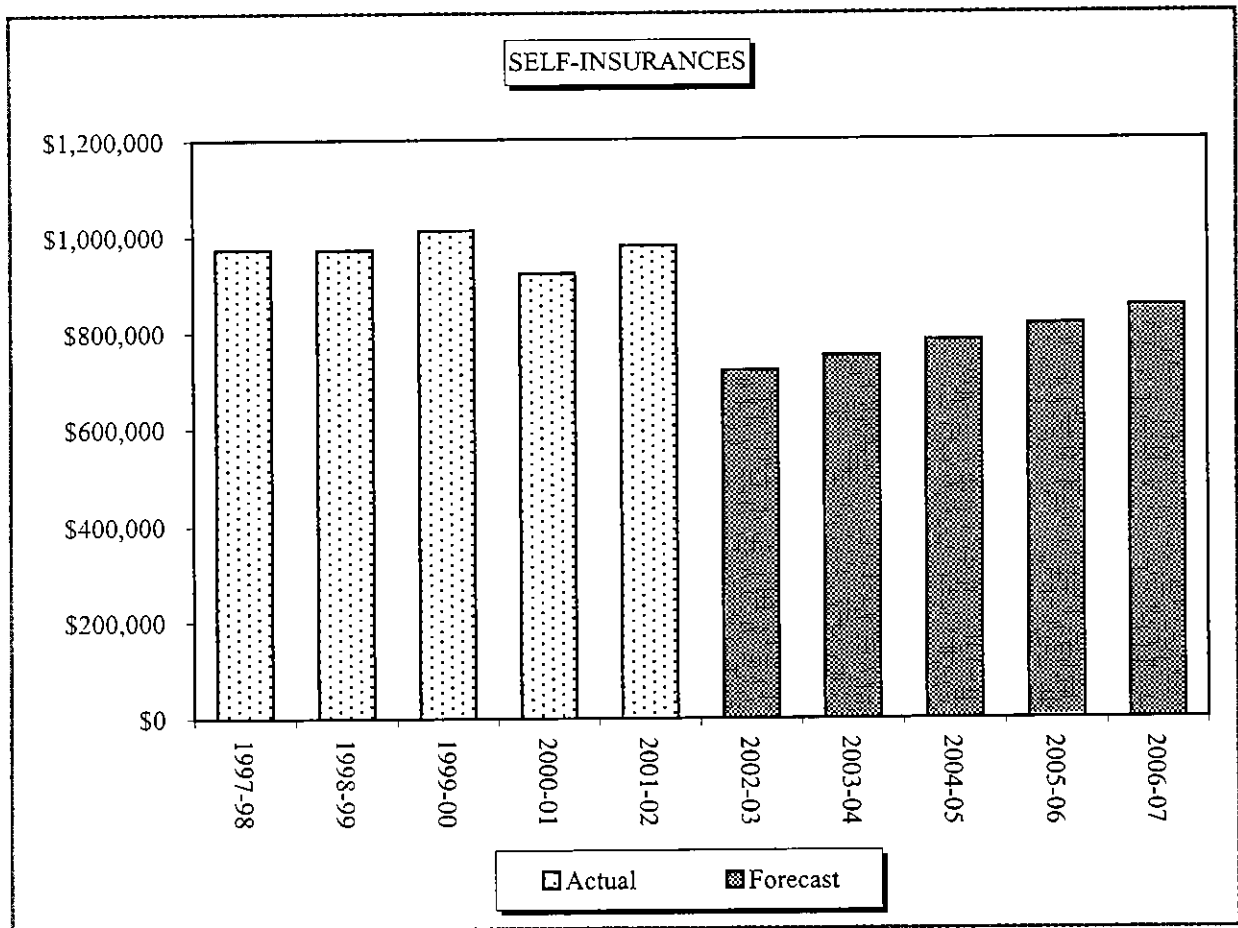
FORECAST

General Liability: The adopted budget includes the allocation of this funding to the General Operating Fund, Revitalization Authority, Shoreline Golf Links, Parking District, Shoreline Regional Park Community, Water, Wastewater and Solid Waste Management Funds. The Fiscal Year 2002-03 through 2006-07 projections are based on maintaining the minimum policy level for reserve balances. Operating expenditures in this fund are projected to remain constant.

Retirees' Health Care: The General Operating Fund's contribution to the Retirees' Health Fund is based on the projected cost of health care premiums for retired employees and the number of retirees. The number of retirees is calculated to increase by 15 for Fiscal Year 2002-03 and by 12 in each of the four following forecast years. This is based on historical trends and the number of known pending retirements.

To date, the General Operating Fund has contributed the entire reserve balance of the Retirees' Health Fund. The adopted budget includes funding of the General Operating Fund's share to be paid by investment earnings generated by the reserve balance.

Vision Care: The General Operating Fund's contribution is based on the projected amount required to fund vision coverage for employees and retirees and safety glasses for employees.



<u>Fiscal Year</u>	<u>Annual Expenditures</u>	<u>% Change</u>
1997-98	973,000	3.6%
1998-99	972,000	(0.1%)
1999-00	1,011,000	4.0%
2000-01	921,000	(8.9%)
2001-02 *	978,000	6.2%
2002-03 **	719,000	(26.5%)
2003-04	750,000	4.3%
2004-05	782,000	4.3%
2005-06	816,000	4.3%
2006-07	852,000	4.4%

* Unaudited

** Adopted

DEBT SERVICE

The Debt Service category funds the debt obligations of the General Fund to the Debt Service Funds.

CATEGORIES

- City Hall and Center for the Performing Arts

HISTORY

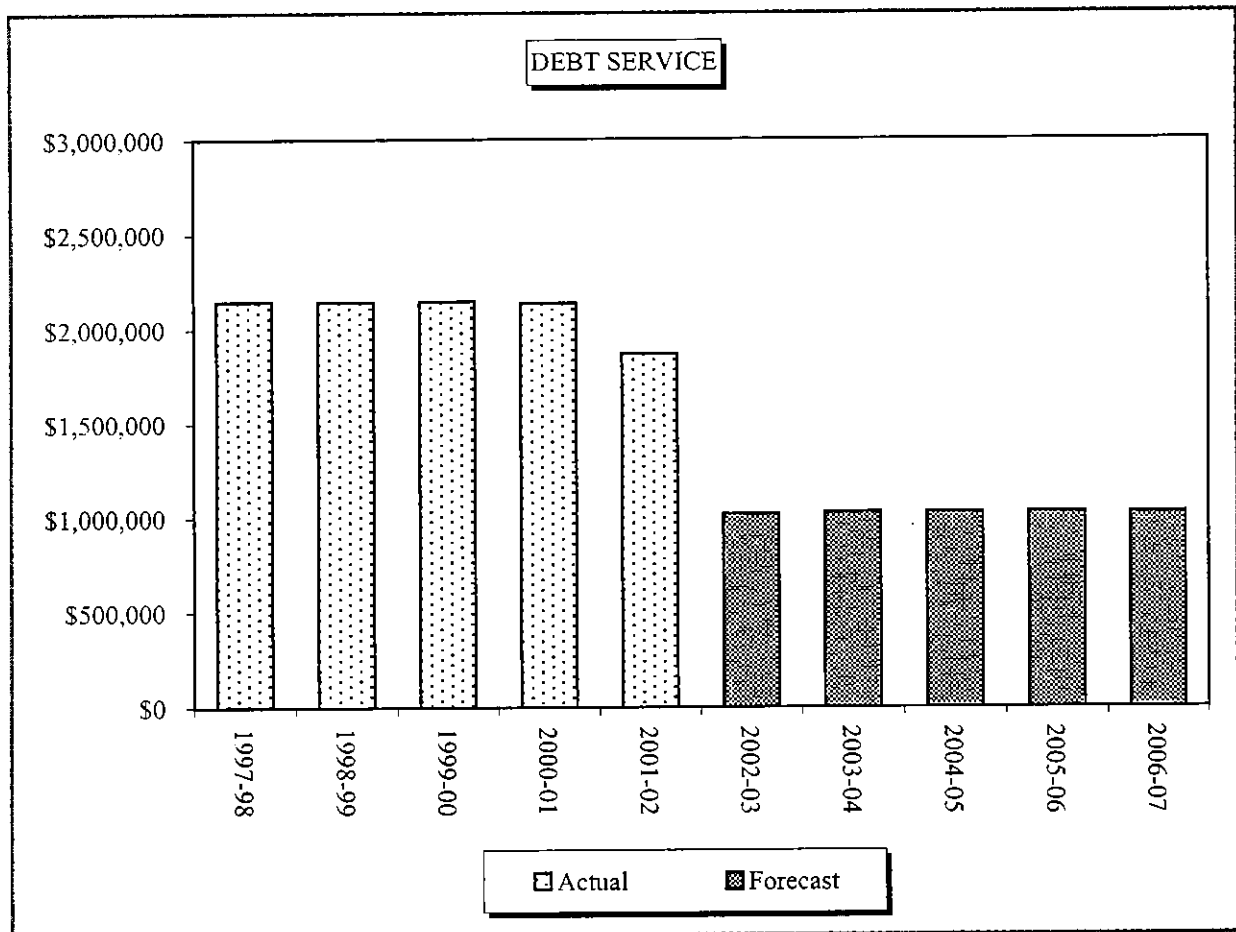
City Hall/Center for the Performing Arts: In Fiscal Year 1988-89, the City issued debt to fund the construction of a new City Hall building and Center for the Performing Arts. The City refinanced this debt in Fiscal Year 1992-93, reducing annual debt service payments an average of \$230,000 and a total savings of approximately \$5.5 million over the life of the debt.

The Council approved the allocation of \$5.0 million from the Fiscal Year 1999-2000 General Fund carryover and \$5.0 million from the Fiscal Year 2000-01 carryover to call a portion of the outstanding General Fund bonds.

FORECAST

City Hall/Center for the Performing Arts: The \$10.0 million bond call and refinancing completed in August 2001 reduced the ongoing General Operating Fund debt service obligation by approximately \$1.1 million annually. This annual reduction in debt service expenditures is reflected in the expenditure forecast.

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<u>Fiscal Year</u>	<u>Annual Expenditures</u>	<u>% Change</u>
1997-98	2,148,000	(20.7%)
1998-99	2,144,000	(0.2%)
1999-00	2,145,000	0.0%
2000-01	2,135,000	(0.5%)
2001-02 *	1,868,000	(12.5%)
2002-03 **	1,018,000	(45.5%)
2003-04	1,027,000	0.9%
2004-05	1,025,000	(0.2%)
2005-06	1,027,000	0.2%
2006-07	1,024,000	(0.3%)

* Unaudited

** Adopted